



2000 Comprehensive Annual Financial Report

California State Teachers' Retirement System

A Component Unit of the State of California
June 30, 2000





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Michael D. West, *Faces*, Digitally manipulated photography, 18"x14",
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JoAnne Cox, *En Vogue Rouge*, Watercolor, 1993, Highlands High School, Sacramento

California State Teachers' Retirement System
A Component Unit of the State of California
2000 Comprehensive Annual Financial Report
for the year ended June 30, 2000

Prepared by the staff of the California State Teachers' Retirement System
7667 Folsom Boulevard Sacramento, CA 95826-2614
James D. Mosman, Chief Executive Officer



ART WORK COURTESY OF CALIFORNIA'S EDUCATORS

The *2000 Comprehensive Annual Financial Report* features works of art by current and retired California educators. These works were exhibited in the Member Art Gallery established in the new Board Room suite, which opened in July 2000. The 60-foot-long gallery presents exclusively works of art by CalSTRS members and Cash Balance Benefit Program participants. The exhibits are changed quarterly.

Interested artists may get more information on offering their art for consideration by contacting Peggy Plett, CalSTRS Deputy Chief Executive Officer, Administration at pplett@calstrs.ca.gov.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

California State Teachers' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1999

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Anne Spray Kinney
President

Jeffrey L. Essler
Executive Director



Public Pension Coordinating Council
Public Pension Principles
1998 Achievement Award

Presented to

California State Teachers' Retirement System

In recognition of instituting professional standards for public employee retirement systems as established by the Public Pension Principles.

Presented by the Public Pension Coordinating Council, a confederation of
Government Finance Officers Association (GFOA)
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Scott Engmann
Chairman

December 20, 2000



California State Teachers' Retirement System
Post Office Box 15275
Sacramento, CA 95851-0275

I am pleased to present the Comprehensive Annual Financial Report of the California State Teachers' Retirement System for the fiscal year ended June 30, 2000. The report is intended to provide complete and reliable information as a basis for making management decisions, determining compliance with legal provisions and determining responsible stewardship of the Teachers' Retirement Plan and the CalSTRS 403(b) Program. Please note the Teachers' Retirement Plan consists of the Defined Benefit and Cash Balance Benefit programs.

I believe this report will be helpful to the California Legislature, CalSTRS members and other interested parties in understanding the California State Teachers' Retirement System, established by law in 1913 to provide retirement benefits to California's public school educators. Responsibility for both the accuracy and completeness of the financial data and the fairness of the presentation rests with me and the management of CalSTRS.

The events and developments of the year mark a threshold for CalSTRS. Thanks to excellent investment returns and the achievement of a fully funded status, CalSTRS is entering a time of increased opportunities for the members. Those members, as of June 30, 2000, included employees of approximately 1,160 school districts, community college districts, county offices of education and regional occupational programs (listed starting page 80).

The 2000 CAFR consists of five sections:

The **introductory section** contains this letter of transmittal, the administrative organization, report of the Teachers' Retirement Board chairperson and a review of CalSTRS achievements and activities.

The **financial section** includes the report of the independent auditor, the system's financial statements and supplemental information for the Teachers' Retirement Plan and CalSTRS 403(b) Program.

The **investment section** contains a consultant's report summarizing investment activity, an explanation of investment policy, portfolio performance information and various investment schedules for the Teachers' Retirement Plan. Investment of the Cash Balance Benefit Program contributions is also discussed. Investment information is not included for the CalSTRS 403(b) Program since all investments are member-directed into mutual funds.

The **actuarial section** includes the actuary's certification letters and summaries for both the CalSTRS Defined Benefit and Cash Balance Benefit programs, in addition to the results of the latest actuarial valuations.

The **statistical section** includes information on the CalSTRS Defined Benefit Program, Cash Balance Benefit Program and CalSTRS 403(b) Program.



Dotie Brown, *Humpty Dumpty*, Mixed media, 1999, Sierra College, Rocklin

ACCOUNTING AND REPORTING

CalSTRS accounting records are maintained on the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer and state contributions are recognized when due and the employer or state has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the CalSTRS retirement programs.

Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

For the reporting period ended June 30, 2000, the Teachers' Retirement Plan consists of the Defined Benefit and Cash Balance Benefit programs.

REVENUES

Actual member and employer contribution rates for both the Defined Benefit and Cash Balance Benefit programs are set by the Teachers' Retirement Law, a part of the Education Code, which assigns the authority to establish contribution rates to the state Legislature.

Defined Benefit and Cash Balance Benefit programs' contributions and investment income for the fiscal year ended June 30, 2000, totaled \$16.753 billion.

Member/Participant	\$ 1.532 billion
Employer	\$ 1.590 billion
State	\$ 0.939 billion
Investment and other	\$12.690 billion

CalSTRS 403(b) Program

Participant contribution limits are set by the Internal Revenue Code. Contribution and investment income for fiscal year ended June 30, 2000, totaled \$16.908 million.

Participant	\$13.792 million
Investment	\$3.116 million

EXPENSES

The total Defined Benefit and Cash Balance Benefit programs' expenses for the year were \$3.756 billion, which included benefit payments, refund of contributions to terminated members/participants and the cost of administering the system. Administrative expenses are allocated through an annual budget approved by the Teachers' Retirement Board.

CalSTRS 403(b) Program

Total expenses for the year ended June 30, 2000, totaled \$2.726 million, which included recurring annuities and administrative expenses.

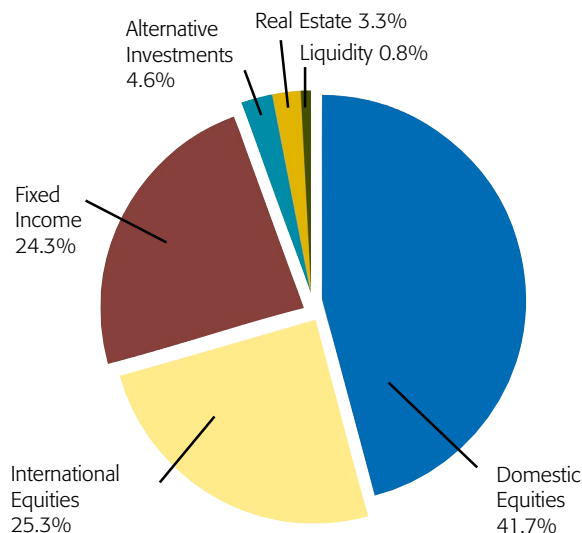
INVESTMENTS

CalSTRS is dedicated to obtaining the highest possible return on its investments of fund assets, given an acceptable level of risk. The CalSTRS Investment Management Plan incorporates strategies that accomplish Teachers' Retirement Board direction. Reducing the system's funding costs, within prudent levels of risk, diversification, and reduction of costs associated with managing the system assets are measures that have contributed to a solid investment portfolio.

The market value of the CalSTRS investment portfolio reached \$112.6 billion on June 30, 2000. The \$112.6 billion represented a gain of \$12.7 billion over the same period last year. This dollar gain represented a return of nearly 13 percent, outperforming its benchmark by more than 200 basis points, adding more than \$2 billion to the fund. Several asset classes exceeded their benchmarks, with exemplary performance shown by the Domestic and Private Equity segment. These strong results allowed CalSTRS'

ASSET ALLOCATION (6/30/00)

Total investment portfolio of \$112.6 billion



portfolio to finish in the 25th percentile in its peer group of large public funds. This marks the second consecutive period in which CalSTRS finished in the top quartile of Public Funds with assets in excess of \$1 billion.

FUNDING

The most recent actuarial valuation, for the fiscal year ended June 30, 1999, shows the Defined Benefit Program is fully funded, having 104 percent of the funds needed to pay the cost of the benefit plan in effect in 1998. Under state law, the Defined Benefit Program receives state General Fund contributions set at a percentage of the prior calendar year's member payroll. With the program fully funded, the amount received from the state was reduced since funding for any shortfall was no longer needed (see page 62).



Xue Ly, *Tea Cup*, Watercolor, 24" x 36", Highlands High School, Sacramento



Karen Bruce, *Portrait*, Monotype, 1992, Sierra College, Rocklin

CALSTRS RATED WELL

The CalSTRS portfolio finished in the 25th percentile in its peer group of large public funds.



Pam Avery, *Abstract with Boy, Girl and Horse*, Acrylic, oil pastel, 3'x3.5', 1999, Foothill High School, Sacramento



Peggy L. Martinez, *Portrait of Any Student*, Chalk pastels, 1999, Highlands High School, Sacramento

INITIATIVES

The health care benefits project is an extremely important initiative. In 1998, legislation passed requiring CalSTRS to study the feasibility of providing health care benefits to active members and benefit recipients. The initial focus resulting from this study will be providing premium-free Medicare Part A for those retired members otherwise not eligible for it.

CalSTRS is in the final stages of establishing a new and more flexible database management system that will enhance service to members and support future CalSTRS projects. Conversion to the new system is scheduled for March 2001.

AWARDS

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the California State Teachers' Retirement System for its comprehensive annual financial report for the year ended June 30, 1999. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The California State

Teachers' Retirement System has received a Certificate of Achievement for the last three years. We believe our current report continues to meet the Certificate of Achievement Program requirements and are submitting it to GFOA for consideration again this year.

CalSTRS also was awarded the Public Pension Coordinating Council's Public Pension Principles Achievement Award in 1998. This two-year award is for achievement of high professional standards for public employee retirement systems. The award is based on compliance with principles that support retirement system achievements in the areas of benefits, actuarial valuations, financial reporting, investments and disclosures to members.

ACKNOWLEDGMENTS

The compilation of this comprehensive annual financial report reflects the combined effort of CalSTRS staff under the leadership of the Teachers' Retirement Board. I commend their efforts on creating another outstanding report. In addition, I take this opportunity to express my gratitude to the staff, advisors and the many other people and organizations who have worked so diligently to assure the successful operation of the California State Teachers' Retirement System.

Respectfully submitted,

James D. Mosman
Chief Executive Officer



**Emma Y. Zink,
Chairperson**
(K-12 Classroom Teacher)
San Diego

Term:
November 6, 1991 to
November 7, 1995*



Gary Lynes
(K-12 Classroom
Teacher)
Hillsborough

Term:
December 1994
to December 30, 1998*



Delaine Eastin
Superintendent of
Public Instruction
Ex-Officio Member



Lillian Raffel
Vice Chairperson
(School Board Member)
Beverly Hills

Term:
September 10, 1996 to
September 6, 2000



Kathleen Connell
State Controller
Ex-Officio Member



Marty Mathiesen
(System Retiree)
Los Altos

Term:
June 4, 1996 to
June 16, 2000*



Phil Angelides
State Treasurer
Ex-Officio Member



George W. Fenimore
(Public Representative)
Los Angeles

Term:
December 24, 1992 to
November 7, 2001



B. Timothy Gage
Director, Department
of Finance
Ex-Officio Member



**Yvonne Gallegos
Bodle**
(Community College
Instructor)
Ventura

Term:
September 10, 1996 to
September 6, 2000

Vacant
(Insurance Official)

Vacant
(Banking Official)

* Member continues to serve at Governor's discretion.



James D. Mosman
Chief Executive Officer



Patrick Mitchell
Chief Investment Officer



Kenneth L. Costa
*Director
START Project*



Ed Derman
*Deputy Chief
Executive Officer
External Affairs and
Program Development*



Christopher Waddell
*Chief Counsel
Legal Office*



Eileen Okada
*Director of Investment
Administration and
External Relations
Investments*



Peggy A. Plett
*Deputy Chief
Executive Officer
Administration*



Michael J. Carter
*Deputy Chief
Executive Officer
Client Benefits
and Services*



Laurence P. Martin
*Deputy Chief
Executive Officer
Information and
Financial Systems*



Gordon Goodban, *Untitled*, Acrylic, watercolor on paper, 13"x17", 1994, Harriet Eddy Middle School, Elk Grove

CalSTRS contracts for the services of various independent consultants essential to the effective and professional operation of the system. Milliman and Robertson Inc. provides actuarial services and the independent auditor is PricewaterhouseCoopers, LLP. Lists of investment professionals for investment services and other consultants are provided on schedules four and five in the financial section of the report. A partial list of independent consultants is shown below.

- PricewaterhouseCoopers, LLP
- Milliman and Robertson Inc.
- Hogan and Hartson
- William M. Mercer Inc.



Shadiel Mirmobiny, *Perian Dream*, Oil on canvas board, 16"x20", 1987, Sierra College, Rocklin

On behalf of the Teachers' Retirement Board, I am pleased to present the California State Teachers' Retirement System 2000 Comprehensive Annual Financial Report.

This report will illuminate CalSTRS' continuing excellent investment returns, which have provided outstanding opportunities to improve the retirement benefits of California's educators.

While I am most happy about the ongoing progress in benefits and investment growth, I am also proud of the strides CalSTRS has made with the newest communication tool—the Internet. As a teacher, I understand the essential role this technology plays in our society. Our members must have ready access to their retirement system so they can make informed decisions regarding their future.

The CalSTRS Web site is an excellent method of communication. In fact, it was recently cited by an independent party* as outstanding in the areas of substance, functionality, logical format and user friendliness. CalSTRS participates in an annual benchmarking effort with 17 major retirement systems worldwide and it was through this process CalSTRS was ranked among the top five.

Since its debut in April 1996, the number of visits, or "hits," to the Web site has increased from fewer than 5,000 to approximately 38,000 this past year. New features for the Web site are constantly in development and added as soon as possible. Our aim is to make the Web site an innovative, interactive and dynamic means of communicating with CalSTRS members and interested parties.

Currently at the Web site, one can view and print more than 100 megabytes of data, a veritable wealth of information about CalSTRS, benefits and programs, legislation, publications and forms.

Recently, we implemented interactive features that allow CalSTRS to offer audio and video productions on the Web site and the ability to conduct secure transactions over the Web. This considerably expands our ability ultimately to provide around-the-clock access to CalSTRS and a member's own account information.

Right now members can contact CalSTRS regarding account information by completing an online e-mail



Teresa Taranto, *Teapot, Batik*, 12" x 18", 2000, Rio Linda High School, Sacramento

form and forwarding it to CalSTRS electronically. This process insures the security of the member's confidential information. The member will get a response by telephone or e-mail in approximately three days.

Proposed Web site features include secure online transmittal of Cash Balance Benefit Program contribution balance, secure online viewing of Defined Benefit account statements and secure online access to the participant's Cash Balance account and benefit enhancements to come. In the not too distant future, we hope members will be able to complete the entire retirement process online, if this is their preference.

In addition, the financial education and retirement planning information online is planned to expand to include the ability to determine the assets necessary to continue your pre-retirement standard of living, the immediate actions to take for a secure retirement future and how to make informed decisions about CalSTRS benefit options.

As computer technology evolves, CalSTRS will continue to keep pace in our drive to provide world-class service to California's educators.

Respectfully submitted,

Emma Y. Zink
Teachers' Retirement Board, Chairperson

*Cost Effectiveness Measurement Inc.

Membership

Membership in the CalSTRS Defined Benefit Program includes California public school employees, kindergarten through community college, who teach, are involved in the selection and preparation of instructional materials, or are supervising persons engaged in those activities.

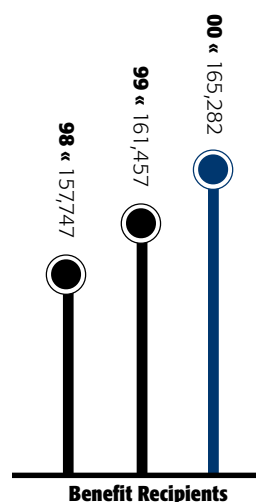
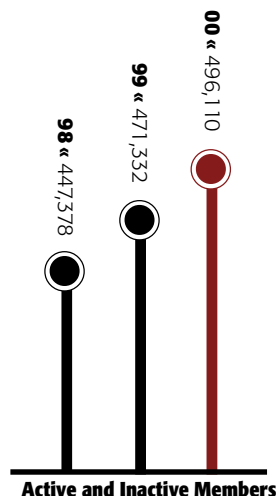
Membership is in effect as long as the contributions remain on deposit with the program.

Members are employed in approximately 1,160 public school districts, community college districts, county offices of education and state reporting entities in California. The CalSTRS Defined Benefit Program includes service retirement, benefits for survivors and disability benefits.

A beneficiary of a retired member who has elected a joint and survivor option receives a continuing lifetime allowance upon the retired member's death.

As of June 30, 2000, there were a total of 496,110 active and inactive members and 165,282 retired members, disability and survivor benefit recipients. The combined total of members and benefit recipients equals 661,392, an increase of 28,603 more than the previous fiscal year.

(The audit report of the independent auditors, presented in the financial section, contains Defined Benefit Program membership data as of June 30, 1999, due to the timing of that report.)

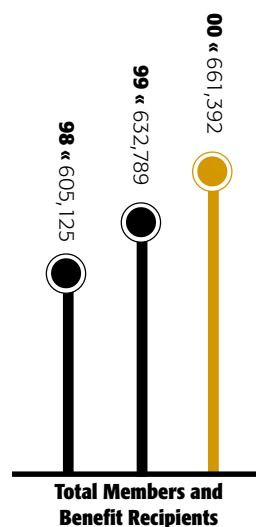


Benefits to Members and Benefit Recipients

SERVICE RETIREMENT

CalSTRS desires the retirement process to be positive, rewarding and comfortable for the members. CalSTRS believes fast, accurate and efficient benefit payments are fundamental to achieving this goal.

Of the 7,216 members who retired in 1999–00 fiscal year, 97 percent received his or her first benefit payment within the CalSTRS-established goal of issuing payment within 30 days following the person's retirement date (or after receipt of the completed application). CalSTRS' 30-day goal exceeds the 45-day standard mandated by law.





Gordon Goodban, *Wubhill*, Acrylic, ink on paper, 24"x18", 1999, Elk Grove High School, Elk Grove

SURVIVOR BENEFITS

CalSTRS received 5,573 survivor benefits applications. Of the applications received, 99 percent were processed within the 45-day legislative standard and 94 percent were processed within 30 days.

DISABILITY

The Disability Services Section received 648 disability applications during 1999–00. This represents an increase of more than 20 percent from the previous year.

Even with the increase, staff processed 99 percent of all applications within six months from the date of receipt with more than 80 percent processed within a four-month time frame. The Initial Review team continues to process 100 percent of the initial disability payments within 10 working days from receipt of all necessary information.

The work of the Continuing Qualifications and Vocational Rehabilitation programs resulted in an annual savings of more than \$2.8 million to the system.

Services to Members and Beneficiaries

PUBLIC SERVICE

Public Service staff answered 206,344 calls and the CalSTRS automated attendant telephone system received 72,715. The automated interactive telephone system, Teletalk, received 33,609 calls. CalSTRS is proud of the fact that 97.4 percent of the telephone calls handled by staff were answered in the initial call, thus avoiding the need to call back the member. According to a comparative study of telephone service, this performance level rates as a "best in class" practice.

Ninety-three percent of all calls were answered within 3 minutes or less. On average, callers waited less than a minute.

In addition, the Public Service Office received 9,227 pieces of correspondence.

MEMBER COMMUNICATION

CalSTRS communicates with members and beneficiaries through the *Bulletin* and the *Retired Educator*. The *Bulletin* is mailed twice a year to active and inactive members. It contains information from CalSTRS Chief Executive Officer and the Teachers' Retirement Board. Also presented are legislative summaries and discussions of educator issues.

The *Retired Educator* is mailed twice a year to retired members and benefit recipients. It contains issues and information of special interest to them.

A detailed program book and single-topic brochures are mailed upon request, given to members during personal interviews and are available to employers and employees by mail or telephone request. CalSTRS mails the *New Member Guide* to newly hired educators.

CALSTRS INTERNET WEB SITE

The CalSTRS Web Site is intended to provide information for members, employers and CalSTRS' business partners. The CalSTRS Web Site includes many useful features, such as the Retirement Benefit Calculator, which allow members to estimate their retirement benefit; an online feedback form; and the Employer Page to provide county and school district personnel with pertinent information. A variety of

other topics, ranging from the monthly Teachers' Retirement Board agenda to various CalSTRS publications are updated throughout the year.

FINANCIAL EDUCATION PROGRAM

Thirty-three Financial Education Program workshops were presented around the state under this program. Information regarding CalSTRS benefits, financial planning and applicable Social Security provisions were presented to more than 1,000 members and their guests.

RETIREMENT PLANNING WORKSHOPS

Personal retirement benefit interviews were provided to 28,468 members. In addition, 455 workshops covering retirement, disability and survivor benefits were presented to 12,838 members. These interviews and workshops allow members a chance to have direct contact with staff who answer their questions.

Services to Employers, Member and Client Organizations

The Employer Advisory Committee is composed of county and district employer representatives and CalSTRS staff. The Client Advisory Committee includes CalSTRS staff and members of various organizations representing CalSTRS members and benefit recipients.

These committees meet regularly to provide a forum for active participation in the formation of CalSTRS policies and procedures in areas of information dissemination, benefit plan administration and service to members and beneficiaries.

Reaching consensus with the two committees on legislative proposals, as well as policy issues, is important to the Teachers' Retirement Board. Therefore, staff has also scheduled special meetings and has worked closely with both committees on plan design and other crucial member and employer issues.

Annually, CalSTRS staff conduct an Employer Institute, with one session presented in southern California and another in northern California. CalSTRS processes, laws and policies are discussed with employer staff, giving an opportunity for CalSTRS and employers to exchange information.

CalSTRS staff also conduct field visits to individual counties and school districts. The purpose of the visit is to provide specific information to the employer regarding CalSTRS' data reporting process. In addition to the reporting procedures, staff discuss the use of the Remote Employer Access Program that allows the employer direct access to the CalSTRS database for verification and review of the member's service and contribution records, thereby improving the accuracy and timeliness of the reporting process.



Teresa Taranto, *Heartbeat*, Batik, collage, graphite, 10" x 14", 2000, Rio Linda High School, Sacramento

Personal benefit interviews and Financial Education Program workshops allow members a chance to have direct contact with staff who answer their questions.